

MULTIMEDIA



UNIVERSITY

STUDENT IDENTIFICATION NO

--	--	--	--	--	--	--	--	--	--

# MULTIMEDIA UNIVERSITY

## FINAL EXAMINATION

TRIMESTER 2, 2019/2020

**BAC3664 – ACCOUNTING THEORY**  
(All sections / Groups)

13 MARCH 2020

9.00a.m – 12.00 noon

(3 Hours)

---

### INSTRUCTIONS TO STUDENT

1. This Question paper consists of 3 pages with 4 Questions only not inclusive the cover page.
2. Attempt **ALL** questions. All questions carry equal marks and the distribution of the marks for each question is given.
3. Please write all your answers in the Answer Booklet provided.

**QUESTION 1**

- a) "Integrated Reporting thinking was applied based on the benefits of reporting and notion of underlying theories"
- i. Integrated Reporting Framework fit within corporate reporting landscape. Justify. (5marks)
  - ii. Explain the stewardship theory and legitimacy theory to support for Integrated Reporting. (10 marks)
- b) The evolving demands of the 21st century organization such as Integrated Reporting require accountants to contribute to the management and reporting of value creation in a way that drive both corporate responsibility and growth. Meanwhile, Hans Hoogervorst, Chair of the International Accounting Standards Board, captured the limits of financial statements in his presentation at The International Integrated Reporting Council (IIRC) Council meeting in 2017. Determine what are the limitations of financial statement to capture the value creation of the companies? (10 marks)

**Total: 25 Marks**

**QUESTION 2**

Following the anti-trust investigation by the U.S. attorney general, Microsoft failed to recognize revenue as earned. This is perhaps an example of unacceptable highly conservative earnings management showing **that not all earnings management practices involve overstatements**. The Securities and Exchange Commission (SEC) alleged that Microsoft's accounting practices from July 1994 through June 1998 caused its income to be substantially misstated. Microsoft failed to accurately report its financial results, causing overstatements of income in some quarters and understatements of income during other quarters. The SEC said that Microsoft enhanced its financial results by setting aside artificially large reserves to reduce revenues, with the idea of reversing that procedure to record the revenues in less profitable times. The reserves totalled between \$200 million and \$900 million during the period in question. The SEC criticized the use of **such so-called 'cookie jar' reserves**, which can give investors an inaccurate picture of the company's current financial performance. Under a settlement with the Securities and Exchange Commission, Microsoft has agreed to refrain from accounting violations to settle federal regulators' allegations that it misrepresented its financial performance.

(Source: Needles Jr. B.E., Powers M., Senyigit Y.B, 2018)

**Continued...**

Required:

- a) According to the case, define cookie-jar and explain why manager of Microsoft practiced for cookie jar in their accounting practices. (10 marks)
- b) Describe **THREE (3)** common features of earnings management and provide any **FOUR (4)** examples of financial fraud techniques. (10 marks)
- c) Stated in the case, "not all earnings management practices involve overstatements", describe any other circumstances that manager will practice for understatement of earnings. (5 marks)

**Total: 25 Marks**

**QUESTION 3:**

- a) One of the arguments for reducing or eliminating accounting regulation are based on various market-related incentives, such as 'market for manager' and 'market for corporate takeover' principal.  
Explain:
  - i. Any **FOUR (4)** underlying assumption of free market perspectives in this regard. (4 marks)
  - ii. How by adopting this perspective, managers are argued will still do the 'right thing' in the absence of regulation? Discuss from the 'market for manager' and 'market for corporate takeover' principal. (6 marks)
- b) There are a number of reasons in favour of reducing or eliminating regulation. Do you agree? Provide your arguments based on the following theories.
  - i. The public interest theory of regulation (5 marks)
  - ii. The capture theory of regulation (5 marks)
  - iii. The economic interest theory of regulation. (5 marks)

**Total: 25 marks**

**Continued...**

**QUESTION 4**

- a) Interpret 'market efficiency' and what assumptions about market efficiency are typically adopted in capital market research? (5 marks)
- b) Positive Accounting Theory (PAT) provided a perspective of what motivates managers to disclose particular accounting information whilst Efficient Market Hypothesis (EMH) consider further issues of how individuals (or group of individuals in aggregate) react to accounting disclosures. Justify how PAT and EMH are connected in explaining the **informativeness** of accounting information (i.e., the reaction of capital market to the reported accounting number). **Hint:** Your discussion must also include the **THREE (3)** hypotheses of accounting selection by managers developed by PAT. (20 marks)

**Total: 25 marks****End of Questions**